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Gold consolidates above USD \$1300

Gold prices pulled back late last week, correcting down toward the USD \$1300 range after closing at \$1354.75 on the London PM Fix on the 30th October.

Originally selling off strongly on the 31st October, when the exceptionally strong Chicago PMI report was released, prices have oscillated between USD \$1300 and USD \$1320, with silver suffering a similar original pull back from USD \$22.74 where it was on October 30th.

This week, the metals have proved more resilient, with gold and silver currently sitting at USD \$1318.50 and USD \$21.89 respectively, marginally positive from where they started out.

Where they end up will be largely dependant on the ECB interest rate decision, US GDP figures and, of course, non-farm payrolls due to be released in the next 48 hours.

In the ETF space, we see that Western asset managers continue to shed tonnage, with nearly 50 metric tonnes flowing out of the major gold ETFs in October. Over the year, over 750 tonnes of gold have been redeemed from ETFs, most of which has been sent to Switzerland, re-refined into 1kg bars and shipped to China.

With outflows of that magnitude, total ETF gold holdings are now back to a level last seen in May 2010, when gold was around the USD \$1200 mark, incidentally.

ETF outflows are helping to contribute to sentiment levels towards the metals that are still bearish, although there are some who see the current set-up as constructive to rising prices, not least of whom are [Bank of America Merrill Lynch, who have 'gone long' on gold](#) after it dipped below USD \$1310 last Friday.

They are forecasting a potential rally up to USD \$1430 or even as high as USD \$1533, which was basically where the real damage to gold prices occurred back in April this year.

Whilst that would be music to gold bulls' ears, even Bank of America have acknowledged that should we see weakness down below the USD \$1250 range, they'd reverse their bullish calls, with an expectation that we could re-test the June lows of under USD \$1200.

US data and the Fed

There's been a surprising amount of positive data out of the US this week, most of which indicates that the government shutdown did little to deter private sector business activity.

Late last week we had the Chicago PMI which printed at an incredible 65.9 points, nearly 15 points above expectations. We also had the ISM manufacturing PMI, which recorded a respectable 56.4, although the Markit manufacturing PMI report weakened to only 51.8. Earlier this week, the ISM non-manufacturing PMI also rose, hitting 55.4.

Despite these positive prints, mortgage applications fell, this time by 7%, whilst Challenger job cuts rose, hardly encouraging signs.

The bottom line is that even the odd positive economic data point doesn't change the structural issues facing the US economy, even though we should acknowledge them when they occur, as they impact market movements in the short-term.

Taken on aggregate, data released these past few days has led to some market participants thinking we'll see a QE taper sooner (December '13) rather than later (March '14).

The major focus over the next 48 hours will be on US GDP, US unemployment figures, and the keenly awaited non-farm payrolls report. The market expectations are very low, with consensus appearing to suggest only 125,000 jobs were created.

Personally, I think it might print higher than that, but either way, due to the government shutdown, this report could be largely ignored by the market, unless we see a sub 100,000 or over 200,000 print, in which case analysts will scramble to revise their 'taper' predictions.

On that note, it was interesting to see the attention paid to [two recently published Fed papers](#) which suggest that the Fed will lower the threshold unemployment rate from which they'll look to raise interest rates. At present, it's expected that should the unemployment rate hit 6.5%, the Fed would look at hiking rates, but the new threshold is expected to be 6%.

Essentially this means lower interest rates for longer, and a further continuation of loose monetary policy.

When you also consider that the ECB is likely to cut rates in the next couple of months (something they'll possibly allude to this week) to try and stem rising unemployment and low inflation, the idea that we're coming to an end of this era of unprecedented monetary stimulus is highly questionable at best.

Global gold demand

Whilst we touched on ETF holdings earlier, there's been a few interesting reports this week regarding the state of genuine physical demand for bullion. Rather than focusing on China though this time around, we look to Turkey, where we see that imports for 2013 are set to hit a new record high, above the 269.5 tonnes they imported for the year in 2005. For reference, 270 tonnes is more than Australia produces in any given year.

Gold imports in Turkey are set to double their 2012 level, and triple what they were in 2011.

It seems that the Turks are remonetising gold to an extent, with some banks now offering customers the ability to use gold deposits as collateral on gold backed loans and using gold as access to Turkish lira or for access to credit cards, whilst the Turkish central bank now allows commercial banks to hold a portion of their reserves in gold.

Meanwhile, in the USA, demand for gold American Eagle coins has been very strong this year, with 761,000 ounces sold in the year to end October to date, higher than the total for 2012 and with 2 months to go.

For silver, it's been even more impressive, with YTD sales just shy of 40,000,000 coins; well up on last year when 33,742,500 coins were sold.

Whilst these numbers were impressive, it must be pointed out that during this years' Diwali festival, India saw reduced demand for gold, not surprising in light of government attempts to curb demand, which has seen premiums for gold in India blow out to well over \$100 an ounce.

What's interesting thought is the impact it's having on silver, with demand for the 'other precious metal' growing strongly. Indeed, for 2013, [imports of silver into India will more than double](#).

Gold's economic impact

When discussing gold, typically we are discussing the economic fundamentals supporting why investing in gold is a good idea. Interest rates, money printing, exchange rates, inflation, unemployment, yields on other assets etc.

This week I wanted to [share a short report](#) that discusses the actual economic impact that the physical gold industry has around the world – mining, transport, refining, sales and storage.

The report, [produced by the World Gold Council](#) in conjunction with Price Waterhouse Coopers, and shows that the total value of the gold mining industry to the global economy was over \$200 billion in 2012, with the major components coming from jewellery demand and investment demand (\$70 billion and \$38

billion respectively), as well as recycled gold, which generated a further \$25 billion.

Interestingly, as the infographic states, the impact of gold on the global economy is equivalent to the output of Ireland, or the city of Beijing.

Not bad for a supposedly 'useless' asset which accordingly to the world's most prominent central banker we only value for 'tradition'.

Australia this week

It's been a big week in Australia. We've had the race that stopped a nation (no luck for me in the office sweep), and we've had the Reserve Bank announcement, which blind Freddy could have predicted. No change, with rates on hold at 2.5%, although they did remind us all that the AUD was 'uncomfortably high' and that a "lower level of the exchange rate is likely to be needed to achieve balanced growth in the economy".

The translation is that as much as they are worried about a house price bubble, unless the Fed meaningfully tapers QE, they are stuck with rates where they are, and might even need to push them lower.

In other news, we had a very strong retail sales report, mortgage demand as reported by AFG is booming, and we also had a booming [Performance of Construction index released this morning](#), rising to 54.4 points, signalling expansion in the sector for the first time in 3 years.

Finally, we saw Dun and Bradstreet's business expectations release, which also rocketed higher, with expected sales, profits and selling prices all careering higher.

Whilst this is good news, it must be stated that the same Dun and Bradstreet report showed that only 2% of executives plan to hire (not going to do much to improve the unemployment situation) and nearly three quarters didn't expect to seek finance for investment purposes (probably not much in the way of capital expenditure or investment then either).

On top of that, we had a relatively weak Services sector report, which has now been in contraction for over 18 months (since January 2012) highlighting that on aggregate, whilst the Australian economy is going along OK, it's hardly roaring back to life even with low interest rates and the change of government.

All in all, it has to be said that the Australian economy is travelling along OK at the moment. It's definitely not firing, but it's holding up as we head into 2014, meaning the RBA will likely be on hold for some time.

I still think we'll see a lower cash rate next year though.

Final thought

As a final thought, I'd highly recommend [this relatively short article](#), which appeared in Business Spectator yesterday, written by Alan Kohler. As he succinctly puts it, there's a war on savers being conducted by all central banks around the world today.

The problem is of course, without savings it's not possible for society to have a pool of capital available for investment. Without investment, we can't generate prosperity and sustainable growth.

It's a dangerous path we keep heading down.

Until next week,



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